



Air Canada (TSX:AC) Stock at \$25: Time to Buy More or Walk Away?

Description

Air Canada ([TSX:AC](#)) stock has been a wild ride. Shares were above \$50 before the pandemic, falling by 70% when coronavirus fears first set in. After a brief rebound, the valuation is now back to \$25.

This is perhaps the most controversial stock on the market today. Many analysts think shares are a steal. Others believe the company will go bankrupt.

How should you bet on Air Canada right now?

You need to know these numbers

Stock prices are driven by numbers. Which numbers matter varies. For Air Canada, it's all about cash burn.

You're likely aware that demand for air travel is down significantly. But the reality may be even worse than you realize. Last summer, airlines were flying at just 5% of normal capacity. Today, capacity utilization is still hovering around 10-15%. This is a recipe for disaster.

Planes aren't cheap. Airlines take out substantial debt to afford them, spreading the cost over many years. If demand for air travel falls, these businesses are still on the hook for those fixed-debt payments. When demand is 90% lower year over year, you can bet airlines are losing a ton of money.

In 2020, Air Canada lost nearly \$1 billion every 90 days. It's still losing millions of dollars per day in 2021. The bleeding hasn't stopped, and it won't for at least another few quarters, perhaps even several years.

Air Canada ended 2020 with around \$8 billion in liquidity. That gives it roughly two years of runway before things get really dicey. Thus far, investors have been willing to bet on a turnaround before then.

Of course, if COVID-19 keeps a tight lid on air travel in 2021 and 2022, bankruptcy is a real risk. But what if demand returns this year? How much upside would there be?

Time to bet on Air Canada stock?

Let's say airline demand surges 500% in 2021. How much upside would Air Canada stock have? The answer may surprise you.

The important thing to know about airlines is that they don't make much money unless capacity utilization is very high. We're talking 90% or more. Warren Buffett famously refused to invest in the sector for decades due to this fact. If business isn't *really* good, airline profits are hard to come by.

If revenue surged by 500% this year, capacity utilization may only reach around 50%. That's not high enough to prevent losses, meaning the company will drift further towards bankruptcy. The only thing that would prevent that would be a government bailout.

"A government bailout is almost guaranteed for Air Canada," I [predicted](#) last summer. "The business is responsible for nearly *half* of Canada's domestic air traffic. It employs tens of thousands of people. The government has a vested interest in making sure operations continue without disruption."

Indeed, executives are now lobbying Canada for taxpayer funds. The company recently had "constructive" discussions with the government regarding [aid](#) for the aviation industry.

Where does Air Canada stock go from here? It's hard to say, but even a dramatic uptick in demand may not save this stock. The inherent uncertainty is too much for me to take a position.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus

2. Investing

Date

2025/08/29

Date Created

2021/02/28

Author

rvanzo

default watermark

default watermark